

Valley Economy

A discussion of economic, business, and environmental issues of importance in the Central Valley.

Monday, August 28, 2017

Can \$3 per month really pay for the Delta Tunnels?

Metropolitan Water District and the LA Department of Water and Power have recently released reports saying the Delta tunnels are affordable because they will only cost the average household about \$3 per month.

And they have white papers to back it up. Rather than check the math in those white papers line by line, I suggest taking a step back to see if it adds up.

- Assuming no cost overruns, estimates for the annual debt service and operations of the tunnels are between \$1 billion to \$1.5 billion per year depending on financial assumptions.
- \$3 per month (\$36 per year) multiplied by 7 to 8 million households in areas served by the tunnels results in \$250 to \$300 million per year in revenue. That's about 25% of the estimated cost.

So who is paying the other 75%?

It appears that these white papers are still assuming 2/3 of it will be paid by farmers and wildlife refuges. About 10% is assumed to be paid by businesses like shopping centers (most of which ultimately comes back to households through higher prices or lower incomes).

Until there is a complete financial plan and cost allocation that includes clear explanations of critical issues such as who pays cost overruns, what happens when entities opt out or default, and what sort of reserves are needed to cover payments during droughts - it will be impossible to say what the average household will pay.

For now, I am standing by my old prediction that urban households will end up paying about 90% of the cost through a combination of water bills, property taxes, and other forms of indirect subsidy. If interest rates stay low and current cost estimates are accurate, it could still exceed \$100 per year.

Posted by Jeff at 5:31 PM

Labels: delta tunnels

1 comment:

 Unknown September 3, 2017 at 5:15 PM

Your long term cost estimate does not consider inflation. Assuming it takes ten years to build the project, a fifty year "useful life" initial maintenance costs equal to 5% of the capital cost, monitoring costs equal to 1% of the capital cost 3% inflation during construction and 6% inflation of maintenance and monitoring costs over the 50 year operating costs then the required cash flow for bonded debt service and operations will be about \$3 billion per year and rise from there. In the alternative DWR could use the same maintenance approach used on the Oroville Dam. Skip all major maintenance until there is a failure. ktg Oakland

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About Me

 Jeff

I am Executive Director of the Center for Business and Policy Research at the University of the Pacific, where I have a joint faculty appointment in the Eberhardt School of Business and the Public Policy Program in the McGeorge School of Law. My professional areas of expertise are regional economics (such as labor and real estate markets), and environmental economics. Much of my research has been on the economic impacts of environmental policies such as the Endangered Species Act, sea-level rise, climate change, and land use. Depending on the facts, these studies sometimes favor environmental viewpoints and sometimes business points of view. This is a personal journal and reflects my thoughts at a particular time. I am open to changing my mind in light of new facts and better arguments.

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